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AZ CORP COMMISSION  
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January 27, 2012

Docket Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, AZ 85007

RE: Arizona Public Service Company Report on Carbon Tracking Mechanism  
Docket No. E-01345A-08-0172

Pursuant to Decision No. 71448 dated December 30, 2009:

Arizona Public Service Company shall establish a carbon credit tracking mechanism designed to track and set aside all carbon credits generated from its non-carbon emitting generation fleet, including all renewable energy and energy efficiency projects identified in this Settlement Agreement. The Company shall file a report on the tracking mechanism, and any potential for trading of the credits contained within it, with Docket Control as a compliance item in this docket, annually, on or before January 31 of each year, beginning in 2011.

Attached please find Arizona Public Service Company's report for 2011.

If you have any questions regarding this information, please contact me at (602)250-2661.

Sincerely,

Jeffrey W. Johnson

JJ/cd  
Attachments

cc: Brian Bozzo  
Terri Ford

Arizona Corporation Commission  
DOCKETED

JAN 27 2012

DOCKETED BY

**Arizona Public Service Company  
Carbon Reduction Report for 2011**

In Arizona Corporation Commission ("Commission") Decision No. 71448,<sup>1</sup> the Commission directed Arizona Public Service Company ("APS") to establish a carbon credit tracking mechanism:

IT IS FURTHER ORDERED that Arizona Public Service Company shall establish a carbon credit tracking mechanism designed to track and set aside all carbon credits generated from its non-carbon emitting generation fleet, including all renewable energy and energy efficiency projects identified in this Settlement Agreement. The Company shall file a report on the tracking mechanism, and any potential for trading of the credits contained within it, with Docket Control as a compliance item in this docket, annually, on or before January 31 of each year, beginning in 2011.<sup>2</sup>

**Background**

While it appeared likely at the time of the Decision<sup>3</sup> that some form of federal carbon legislation (see discussion below), particularly a cap and trade type program, would be passed, the proposed federal carbon legislation was not enacted.

In light of the possibility that a national carbon pricing policy could be approved in the near future - either through a federal cap and trade or carbon tax program - we believe that the company should be closely tracking and setting aside for the benefit of future ratepayers all credits it is accruing associated with ratepayer-financed non-carbon generation.<sup>4</sup>

In 2011 there were no federal legislative activities related to the establishment of a carbon cap and trade program or a carbon tax, and the passage of federal legislation establishing carbon cap and trade or carbon tax programs may be unlikely over the next several years. In addition, U.S. Environmental Protection Agency climate change regulatory efforts do not propose cap and trade type programs that would establish a national carbon credit program.<sup>5</sup>

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<sup>1</sup> Docket No. E-01345A-08-0172.

<sup>2</sup> Decision No. 71448, p. 61 at 26.

<sup>3</sup> December 30, 2009.

<sup>4</sup> Decision No. 71448, p. 58 at 28.

<sup>5</sup> Mandatory Greenhouse Gas Reporting, 40 C.F.R. § 98.

### Carbon Reduction - Energy Efficiency and Renewables

With the lack of a legislative program or national carbon pricing policy, there are no mechanisms for establishing carbon credits and therefore, establishing a tracking mechanism is premature at this time because a carbon value and market has not been established.

In lieu of a carbon credit tracking mechanism, APS will, for now, track annual carbon dioxide emissions reductions and avoidances resulting from APS's renewable energy and energy efficiency projects. This will help APS in its ongoing efforts to evaluate and prepare for any future legislative proposals for a national carbon program. If a national program is established that includes carbon credits, APS will then develop a carbon credit tracking mechanism for its renewable energy and energy efficiency programs consistent with that legislation.

For informational purposes, APS has prepared the attached table that shows the carbon dioxide emission reduction or avoidance tracking mechanism for its 2011 energy efficiency and renewable energy programs.

**Arizona Public Service Company**  
**Carbon Dioxide (CO2) Reductions/Avoidance from Energy Efficiency and**  
**Renewable Generation Programs for 2011**

<b>APS PROGRAM</b>	<b>MWH</b>	<b>METRIC TONS CO2 REDUCTION<sup>2</sup></b>
<b><i>ENERGY EFFICIENCY<sup>1</sup></i></b>		
Consumer Products	99,000	40,370
Existing Homes	21,000	8,563
New Construction	8,000	3,262
Appliance Recycling	11,000	4,486
Low Income	2,000	815
Conservation Behavior	25,000	10,194
Multi-Family	4,000	1,631
Shade Trees	1,000	408
Large Existing Facilities	101,000	41,186
New Construction	27,000	11,010
Small Business	28,000	11,418
Schools	23,000	9,379
Energy Information Systems	2,000	816
<b>TOTAL ANNUAL ENERGY EFFICIENCY</b>	<b>352,000</b>	<b>143,538</b>
<b><i>RENEWABLE GENERATION</i></b>		
Ajo Solar	2,000	816
Aragonne Mesa Wind	237,800	96,970
High Lonesome Wind	300,200	122,413
CE Turbo Geothermal	72,100	29,401
Glendale Landfill	17,900	7,299
Snowflake White Mountain Power	160,600	65,489
Prescott Solar	2,900	1,183
Bagdad Solar	2,000	816
AZ Sun: Cotton Center	8,900	3,629
AZ Sun: Paloma	9,600	3,915
AZ Sun: Hyder	2,900	1,183
APS PV	6,000	2,447
Saguaro Solar Trough	100	41
<b>TOTAL ANNUAL RENEWABLE GENERATION</b>	<b>823,000</b>	<b>335,602</b>
<b>TOTAL APS CARBON DIOXIDE REDUCTION FROM EE AND RENEWABLE GENERATION</b>		<b>479,140</b>

- 1) Current values for Energy Efficiency are from projections of annual megawatt hour ("MWh") savings in the APS 2011 Demand Side Management ("DSM") Implementation Plan. Actual MWh values for 2011 will be available in the APS March 1, 2012 DSM Semi-Annual Progress Report.
- 2) Current values for Renewable Generation are estimates. Actual MWh values for 2011 will be provided in APS's 2011 Compliance report to be filed with the Commission by April 1, 2012.
- 3) Metric tons of CO2 reduction are calculated based on APS 2011 assumption for natural gas combined cycle generation carbon dioxide emissions of 899 pounds (0.407779 metric tons) per MWh. This is consistent with the emission factor used for calculating carbon benefits in APS's 2011 DSM Semi-Annual Progress Reports and Implementation Plan.